

On behalf of First National Wealth Management, thank you for the continued confidence you have placed in us. 2023 marked our 106th year of providing Trust and Wealth Management services in Sioux Falls, and we are committed

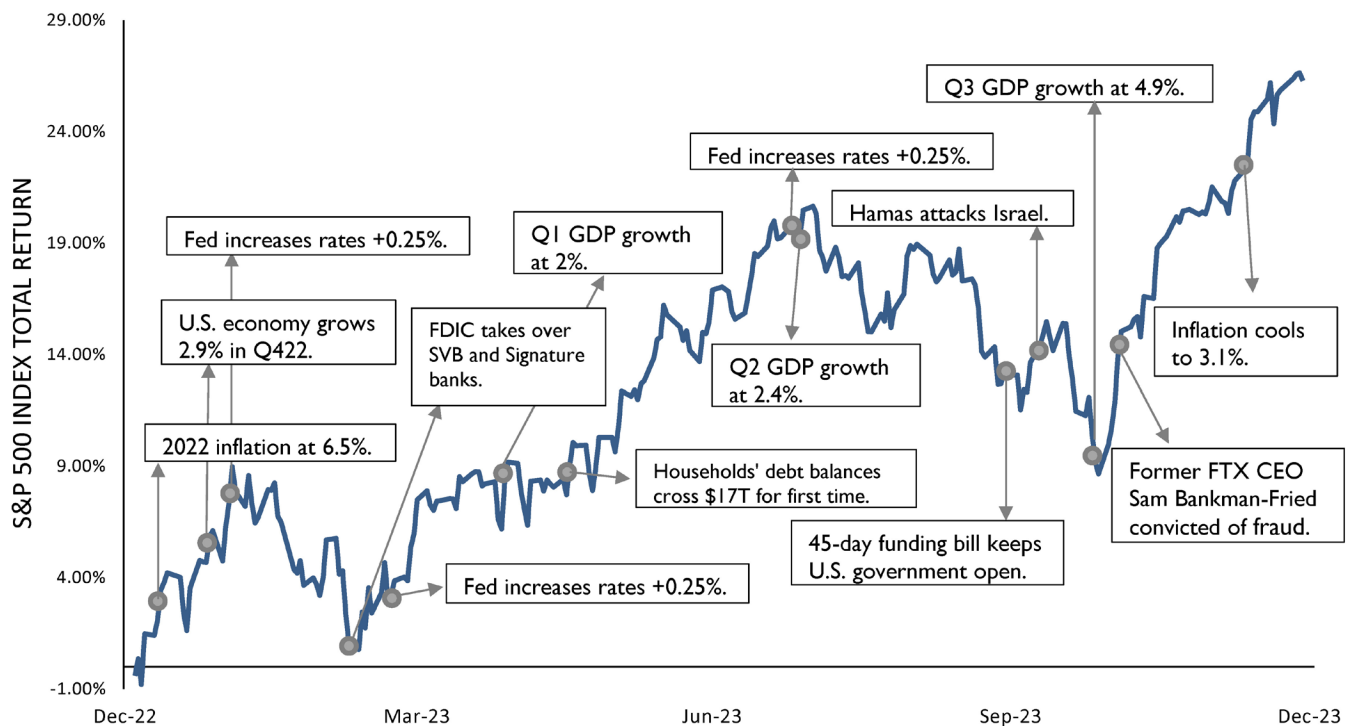
to the continuing success of our partnership. We hope you find value in this 2023 market and economic review. Should you have any questions regarding this material or anything else, please contact us.

## CLIENT-CENTERED FOCUS

As it has been for more than 100 years, our goal is to be your most trusted financial partner and make your lives easier and better. In 2023, we continued investing in our comprehensive financial planning service, which allows us to provide in-depth financial and tax planning to our wealth management clients — building on our reputation as a premier provider of services under the fiduciary standard.

We also increased our delivery of original personal finance content, including our award-winning *Common Cents on the Prairie™* podcast that recently surpassed 40,000 downloads; thank you for listening! And for those of you who are ready to start, you can find all episodes on our website or any platform on which you stream podcasts.

## 2023 MARKET REVIEW



Data from 12/31/2022– 12/31/2023. Source: FactSet, Avantis Investors. Past performance is no guarantee of future results.

*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

### Questions? Contact

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## MARKETS PROVE RESILIENT

*"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."*  
-origin unknown, often attributed to Mark Twain

What a difference a year makes. At the outset of 2023, many forecasters and economists were expecting a recession during the year. Interest rates were rising quickly, inflation was still near its peak, and the outlook was bleak. In fact, a Bloomberg economics forecast in October of 2022 declared the probability of a recession in the next year (2023 in this case) was 100%! Yet here we stand, recession-free, with positive returns on both stocks and bonds to boot.

Every year, investors are bombarded with forecasts, outlooks, and other forms of fortune-telling. The temptation is to act, optimizing for the preferred investment scenario. Yet, the future often surprises us, as it did this past year. The good news is that we do not need to be right all the time to be successful. With properly structured portfolios, investors can be ready for surprises of all kinds. ***So, instead of being rewarded every time, we can be rewarded over time.***

## 2023 MARKET REVIEW

### Equity Market Highlights

The S&P 500 Index of large U.S. stocks had a total return of 26.3% in 2023, making up for 2022's -18.1% total return. The trailing two-year total return for the S&P 500 Index is 3.4%. The story for the year was the dramatic recovery of the "Magnificent Seven" stocks: Apple, Microsoft, Alphabet (Google), Amazon, Nvidia, Meta (Facebook), and Tesla. The average return for these seven prominent stocks was -45% in 2022 and 105% in 2023. Excluding the Magnificent Seven, the return for the rest of the 493 stocks in the S&P 500 Index was 10%.

Global stock markets ended the year positive as well. Developed international stocks, as represented by the MSCI World ex USA Index, gained 16.2%. Meanwhile, emerging markets gained less, with the MSCI Emerging Markets Index up 9.8%.

### Fixed Income Highlights

The Federal Reserve increased rates four times in 2023, bringing its target rate to 5.5%. The Bloomberg Barclays U.S. Aggregate Bond Index gained 5.5% for the year — a dramatic reversal from last year's -13% return. Due to reports indicating inflation is coming back down to a more normal level and the Fed indicating it may be done hiking, interest rates declined significantly in the fourth quarter. The 10-year U.S. Treasury Note yield peaked at about 5% in October before ending the year at 3.88%, almost exactly where it started the year. The current market expectation is for the Fed to cut rates several times in 2024.

## MAJOR WORLD INDICES

*As of December 31, 2023*

Index	One Year	Five Years*	Ten Years*
<b>Equity Returns (%)</b>			
S&P 500 (US Stocks)	26.29%	15.69%	12.03%
Russell 2000 (US Small Cap Stocks)	16.93%	9.97%	7.16%
MSCI ACWI ex USA (International Stocks)	16.22%	7.65%	4.38%
MSCI Emerging Markets (EM Stocks)	9.83%	3.68%	2.66%
<b>Fixed Income Returns (%)</b>			
Bloomberg Barclays Global Aggregate Bond (Total Bond Market)	5.73%	-0.31%	0.38%
Bloomberg Barclays US Aggregate Bond (US Bond Market)	5.53%	1.10%	1.81%
ICE BofAML Three-Month US Treasury Bill (Short-Dated Bond Index)	5.26%	1.91%	1.26%
<b>REIT and Commodity Returns (%)</b>			
S&P North American Natural Resources Sector TR (Commodities)	3.66%	13.13%	2.82%
Dow Jones US Real Estate Index	12.23%	7.31%	7.68%

*\*Annualized*

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## TAX UPDATE

The 2017 Tax Cuts and Job Act (TCJA) overhauled the federal tax code, in part, by nearly doubling the standard deduction amount, reducing ordinary income tax rates, and raising the lifetime estate and gift tax exemption. Barring further legislation from Congress to extend these changes, the TCJA's provisions are scheduled to expire on December 31, 2025. Recognizing this, it may be a good time to consider certain planning opportunities in 2024 and 2025.

Standard deductions for 2024 were increased due to inflation. Married couples can deduct \$29,200 (up \$1,500 over 2023), plus \$1,550 for each spouse aged 65 or older. Singles get \$14,600 (up \$750 over 2023), plus \$1,950 if aged 65 or older. A head of household can deduct \$21,900 (up \$1,100 over 2023), plus \$1,950 for those aged 65 or older. If the TCJA sunsets, those increased deduction amounts will revert back to pre-TCJA levels.

With the possibility of lower standard deduction amounts and higher tax rates just around the corner, you might consider converting a traditional IRA to a Roth IRA to take advantage of lower marginal rates before 2026. Likewise, you might also consider accelerating income into 2025 and pushing deductions to 2026 if tax rates shift higher in 2026.

The lifetime estate and gift tax exemption increases to \$13.61 million in 2024 (up from \$12.92 million in 2023), with \$27.22 million available to couples, and the annual gift tax exclusion goes up to \$18,000 per recipient (up from \$17,000), with \$36,000 available to couples. If the TCJA provisions are allowed to expire on December 31, 2025, the estate and gift tax exemption will revert back to pre-TCJA levels, cutting the exemption amount to \$5 million, indexed for inflation, for 2026.

In 2024, the maximum 401(k), 457, and 403(b) contribution increases to \$23,000; those aged 50 and older can contribute an additional \$7,500. Also, the maximum contribution for a traditional IRA and Roth IRA increases to \$7,000, plus \$1,000 catch-up for those aged 50 and older.

The Secure 2.0 Act from January 2023 is designed to increase retirement savings. Its provisions include raising the required minimum distribution (RMD) age to 73 starting in 2023 and to 75 in 2033, reducing tax penalties, and eliminating required distributions from Roth 401(k) plans. For those who turn 73 in 2023 through 2032, the starting age for RMDs is 73 and the first RMD must be taken no later than April 1 of the year that follows the year they turn 73. The starting age for RMDs is 75 for those who turn 74 after December 31, 2032.

## THANK YOU

Thank you, again, for your continued trust in us. As we look ahead to 2024 and beyond, we know there will be good years for markets and bad. We can't know the sequence in advance, but we can prepare. We prepare by planning ahead for any potential short-term cash needs so that we are not forced to sell at a bad time. We get to know your goals early in our relationship to make sure that your investments are suitable for your risk tolerance and time horizon. We study stock and bond market fundamentals and valuations (we won't bore you with the details), and we are always ready to

act on opportunities. In the end, the best investment portfolio for you is the one you can stick with in good times and bad. Doing so allows you to sit confidently and allow the magic of compounding to grow your wealth.

Please contact your administrator if you would like to schedule a time to visit with us about your portfolio or other ways we could serve your financial needs. In the meantime, we will stay focused on finding the best opportunities we can and adjusting your investments accordingly.

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\*Measured by the Dow Jones Total Stock Market Index

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